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C O N F I D E N T I A L SECTION 01 OF 03 HONG KONG 004214

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DEPT FOR EAP AND EAP/CM
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TAGS: [PGOV](#) [PHUM](#) [PINR](#) [PREL](#) [HK](#) [CH](#) [TW](#) [KN](#)
SUBJECT: EAP ASSISTANT SECRETARY HILL IN HONG KONG

REF: A. HONG KONG 3840
[1](#)B. STATE 172816

Classified By: Consul General James Cunningham. Reasons: 1.4 (b,d)

[1](#)1. (C) Summary: EAP Assistant Secretary Christopher Hill, accompanied by EAP Special Assistant Thomas Gibbons, exchanged views on local and regional issues with a broad spectrum of key Hong Kong contacts, during an October 21-23 visit. William Ryback, the Deputy Chief Executive of the Hong Kong Monetary Authority, suspected that relationships between Banco Delta Asia's Hong Kong subsidiary and North Korean entities existed, but said that a review of the books had not yet uncovered clear substantiating evidence. One Hong Kong observer opined that Chief Executive Donald Tsang had had a rocky first year in office and Beijing might be considering replacing him; another observer disagreed and argued that, despite some political missteps, Tsang had not done anything serious enough to warrant his removal from office. Former Democratic Party Chairman Martin Lee was pessimistic about Hong Kong's future and believed that Hong Kong was increasingly yielding its political and economic autonomy to Beijing. On North Korea, one media tycoon espoused the theory that North Korea was more of a domestic political problem for PRC President Hu Jintao than a foreign policy issue. He believed that for many Chinese conservatives, North Korea was the last area of meaningful foreign policy confrontation. If this point of confrontation disappeared, their role in foreign policy would weaken. End Summary.

Dinner with Political and Business Leaders

[1](#)2. (C) The Consul General hosted a dinner with Deputy Chief Executive of the Hong Kong Monetary Authority (HKMA) William Ryback, legislator and National People's Congress deputy Sophie Leung, Executive Director of Strategic Access David Dodwell, "South China Morning Post" commentator Frank Ching, Asia Chair of Spencer Stuart Martin Tang, and Professor David Zweig of Hong Kong University of Science and Technology in honor of EAP A/S Hill on October 21. A/S Hill opened the dinner with USG perspectives on the North Korea nuclear issue, and briefed the group on the Secretary's meetings in Tokyo, Seoul and Beijing last week. According to Zweig and Ching, prior to the nuclear test, China had hoped three policy options remained available for dealing with North Korea: 1) allow the DPRK to collapse, 2) allow North Korea to test a nuclear bomb, or 3) find a "middle way." When it became clear to Beijing that North Korea was no longer interested in a "middle way," China appeared to prefer a DRPK nuclear test to the potential collapse of North Korea on its border. While acknowledging the seriousness of the North Korea nuclear issue, Dodwell hoped the USG also would focus

on the many positive economic developments occurring in Asia.

13. (C) During a private conversation following dinner, A/S Hill asked Ryback about Banco Delta Asia (BDA). Ryback noted the HKMA has had a manager placed in BDA's Hong Kong subsidiary (Delta Asia Credit) for over a year. Though Ryback suspected that Delta Asia Credit had relationships with North Korean entities, a scrub of the books has not uncovered clear substantiating evidence -- likely because transactions were two or three steps removed. Ryback repeated his earlier requests for intelligence and other more specific information available for release to Hong Kong (see Ref a). As for BDA in Macau, Ryback noted that the Macau Government was under some political pressure, given BDA owner Stanley Au's connections. Macau's action on BDA will in turn affect HKMA's steps in Hong Kong. Separately, Deputy Principal Officer Sakaue conveyed Ref b points on UNSCR 1718 and asked Ryback about the results of HKMA's first-level review of Hong Kong banks. Ryback commented that, with regard to exploring correspondent banking relationships, HKMA had much more work to do.

Lunch with Hong Kong Observers

14. (C) During an October 22 lunch with Christine Loh, Chief Executive Officer of Civic Exchange and Lawrence Lau, Vice Chancellor of Chinese University, Loh told A/S Hill and the Consul General that despite being a board member of Human Rights in China (HRIC), a human rights group based in New York and Hong Kong, she had never been denied entry into China and did not expect her recent elevation to HRIC co-chair to affect her trips into China. Nevertheless, Loh

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believed she was on an unofficial "grey list" and recounted how each and every time she traveled to China, she was forced to wait while immigration officers received an additional approval for her entry, despite having a valid reentry permit. On the political front, Loh opined that Chief Executive (CE) Donald Tsang had had a rocky year in office and said that there was a remote possibility that Beijing might consider replacing him, as they had Tsang's predecessor C.H. Tung. In particular, Beijing was irked by Tsang's comments about the possibility of direct elections in 2012 for Hong Kong during an official visit to Singapore in July. Regarding the CE election in March, Loh said it was unclear whether Alan Leong, Civic Party legislator and democratic challenger for the Chief Executive race, would get the necessary 100 Election Committee nominations to stand in the election.

15. (C) Lau said that what Beijing most wanted for Hong Kong was for the city to run itself. Countering Loh's comments, Lau said, while Tsang may have made some political missteps this past year, he had not done anything serious enough to warrant his replacement. Besides, said Lau, there was no realistic alternative candidate for Chief Executive. Lau cited recent requests from pro-Government political parties to visit Beijing as a misguided attempt by Hong Kong politicians to use their relationships with Beijing to improve their own political fortunes. Chinese leaders have enough worries and issues to deal with on the mainland without dealing with the constant flow of Hong Kong politicians visiting Beijing and asking for economic and political "handouts," maintained Lau.

Meeting With Martin Lee and Jimmy Lai

16. (C) The Consul General hosted a private meeting with A/S Hill, Gibbons, Democratic Party founder and former chairman Martin Lee, Next Media Chairman Jimmy Lai, and "Apple Daily" Director of Corporate Accounts Mark Simon on October 22. Lee was (characteristically) pessimistic about Hong Kong's future

and believed that Hong Kong's political and economic agendas increasingly had come under Beijing's influence. He cited several recent indicators which showed PRC control creeping into Hong Kong's economic decision-making process, including: Hong Kong's first-ever inclusion into China's five-year economic plan, the September 11 closed-door Economic Summit, and Donald Tsang's announcement that the HKG would distance itself from the city's unstated economic policy of "positive non-intervention." Lee noted that Tsang and Beijing appeared to be in agreement on their strategy to continue to ensure a complacent electorate through economic good times and a timely distribution of Government money as set out in Tsang's policy address. Regarding the CE election, Lee expressed pessimism that any candidate would mount a genuine challenge to Tsang.

17. (C) Lai told A/S Hill that he recently had traveled to Taiwan, where he had dined separately with Taiwan President Chen Shui-bian and Kuomintang (KMT) Chairman Ma Ying-Jeou. While Lai believed Chen was personally "clean," he said Chen's family and associates likely were "riddled with corruption." Nevertheless, Lai predicted Chen would survive the current political turmoil. Ma also was personally "clean," said Lai, but had not yet faced up to the task of ridding the KMT of corruption. Ma does not want Chen to fall now, but preferred a process of attrition while Ma tried to get his own party's act together, according to Lai. Separately, the lines were sharpening between those whose goal was independence and the KMT, which still espoused unification and was willing over time to foresee unification on Beijing's terms. Lai's own view is that the long-term goal for Taiwan should be independence with Beijing's acquiescence as China liberalized.

18. (C) On the DPRK, Lai espoused the theory that North Korea was more a domestic political problem for PRC President Hu Jintao than a foreign policy issue. According to Lai, supporting the DPRK was a matter of ideological principle and history for the conservatives and the old guard -- a group that Hu needs to co-opt. Lai believed that if the DPRK regime were to fail and the two Koreas unified, this would undercut the old guard and open the way for Hu to phase out the conservatives and move ahead with liberalization. North Korea was the last area of meaningful foreign policy confrontation for Chinese conservatives; if this point of confrontation disappeared, their role in foreign policy would weaken, said Lai.

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Press Coverage of A/S Hill's Hong Kong Visit

19. (U) A/S Hill was interviewed by reporters from the "South China Morning Post" (SCMP) newspaper and the weekly "Yazhou Zhouban" (Asia Week), and separately by CNN on camera. The Asia Week article has not yet been published, but the CNN interview aired several times on CNN International and the SCMP interview generated several articles. The text of the SCMP articles accurately reported what A/S Hill said, but the headline spin (e.g., "US point man on N Korea in HK for talks on bank freeze") led to numerous inquiries. We have responded that the purpose of his trip was to consult with Consulate staff and to meet with various members of the Hong Kong Government, business and NGO communities.

110. (U) The delegation has cleared this cable.
Cunningham